

SENSHUKAI CO.,LTD.

(Tokyo Stock Exchange, First Section: 8165)

Second Quarter of Fiscal 2016 Earnings Presentation

July 28, 2016

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for Smiles 2018

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1. Consolidated Results of Operations for 2Q Fiscal 2016


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2Q Fiscal 2016 Consolidated Statement of Income (YoY Comparison)

(Millions of yen)

	2Q 2015		2Q 2016		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	68,161		65,898		-2,263	-3.3%
Cost of sales	36,451	53.5%	34,377	52.2%	-2,074	-1.3%
Gross profit	31,710	46.5%	31,520	47.8%	-190	1.3%
SG&A expenses	32,864	48.2%	31,924	48.4%	-940	0.2%
Operating income	-1,154	-1.7%	-403	-0.6%	751	1.1%
Ordinary income	-1,063	-1.6%	181	0.3%	1,244	1.9%
Profit attributable to owners of parent	-1,219	-1.8%	162	0.2%	1,381	2.0%

❖ Net sales decreased due to the continuing decrease in repeat customers* from the previous fiscal year and the weak performance of apparel and fashion accessories in the mail-order business.

*Repeat customers: Customers who made purchases in the previous as well as the current fiscal years

❖ Operating income improved despite lower sales, because of the reduction in SG&A expenses and recovery in gross profit led by a lower cost to sales ratio.

2Q Fiscal 2016 Consolidated Balance Sheet (Compared with End-Fiscal 2015)

	Dec. 31, 2015	Jun. 30, 2016	Difference	Remarks
Assets				
• Current assets	51,947	46,739	-5,208	<ul style="list-style-type: none"> ■ Accounts receivable-other: -¥2.6bn ■ Cash and deposits: -¥1.1bn ■ Other (Forward exchange contracts, etc.): -¥1.8bn
• Non-current assets	53,404	50,932	-2,472	<ul style="list-style-type: none"> ■ Property, plant and equipment: -¥0.8bn ■ Investments and other assets: -¥1.0bn
Total assets	105,352	97,672	-7,680	
Liabilities				
• Current liabilities	31,410	28,386	-3,024	<ul style="list-style-type: none"> ■ Accounts payable-trade: -¥0.6bn ■ Current portion of bonds: -¥0.4bn ■ Other (Accounts payable-other, etc.): -¥2.0bn
• Non-current liabilities	20,236	20,314	78	
Total liabilities	51,647	48,701	-2,946	
Net assets				
• Shareholders' equity	57,159	57,349	190	
• Accumulated other comprehensive income	-3,481	-8,422	-4,941	<ul style="list-style-type: none"> ■ Deferred gains or losses on hedges: -¥3.5bn ■ Valuation difference on available-for-sale securities: -¥0.7bn
• Non-controlling interests	27	44	17	
Total net assets	53,705	48,971	-4,734	
Total liabilities and net assets	105,352	97,672	-7,680	

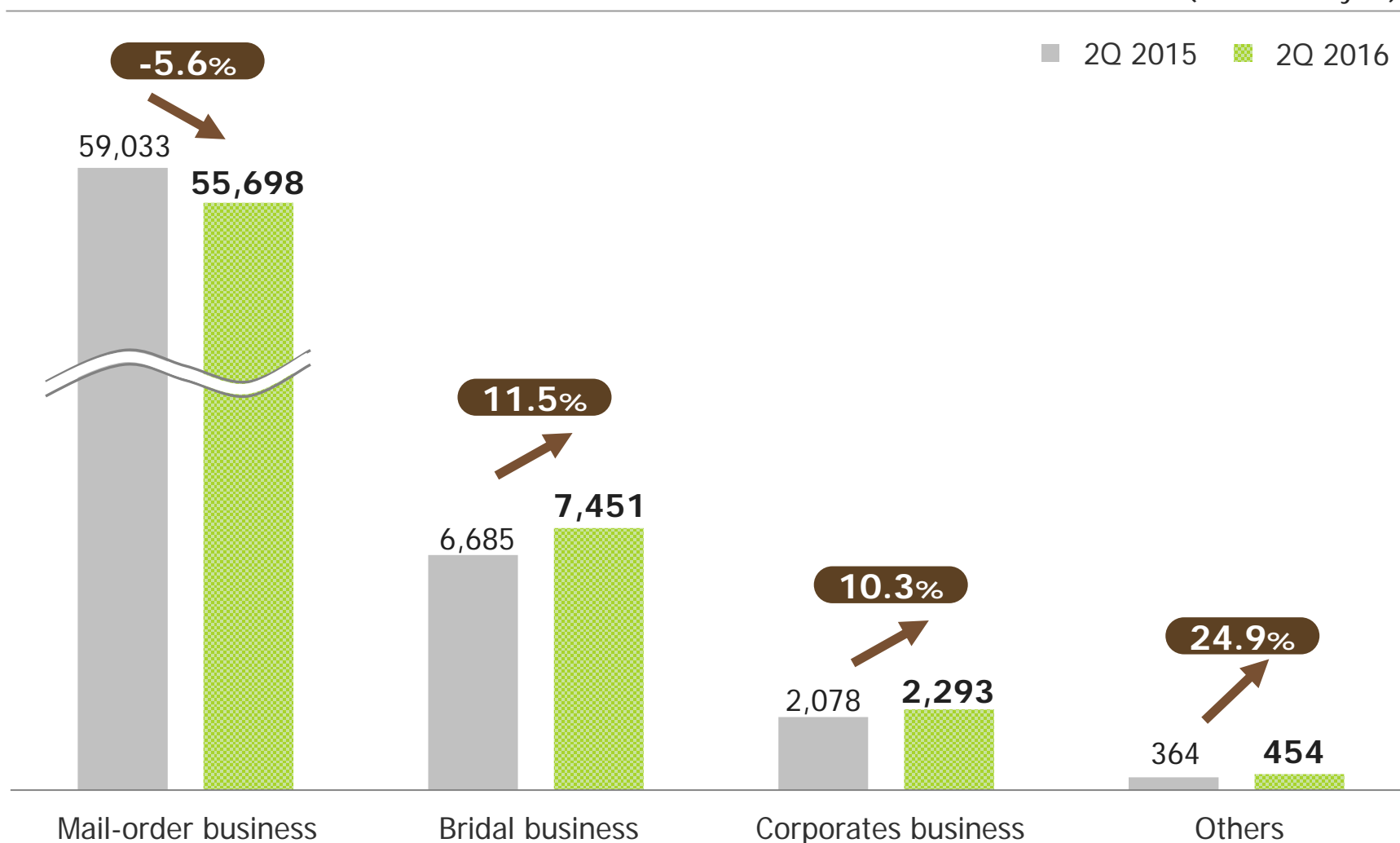
2Q Fiscal 2016 Consolidated Statement of Cash Flows (YoY Comparison)

(Millions of yen)

	2Q 2015	2Q 2016	Difference	2Q 2016 highlights
Net cash provided by (used in) operating activities	3,141	1,519	-1,622	<ul style="list-style-type: none"> ■ Depreciation: +¥1.6bn ■ Decrease in other current assets: +¥2.5bn ■ Decrease in other current liabilities: -¥2.5bn
Net cash provided by (used in) investing activities	-3,653	-617	3,036	<ul style="list-style-type: none"> ■ Purchase of property, plant and equipment: -¥1.3bn ■ Proceeds from sales of property, plant and equipment: +¥0.9bn ■ Purchase of intangible assets: -¥0.4bn
Net cash provided by (used in) financing activities	10,844	-2,005	-12,849	<ul style="list-style-type: none"> ■ Repayments of long-term loans payable: -¥1.2bn ■ Redemption of bonds: -¥0.4bn ■ Cash dividends paid: -¥0.2bn
Cash and cash equivalents at end of period	18,309	13,127	-5,182	

Consolidated Sales by Business Segment (YoY Comparison)

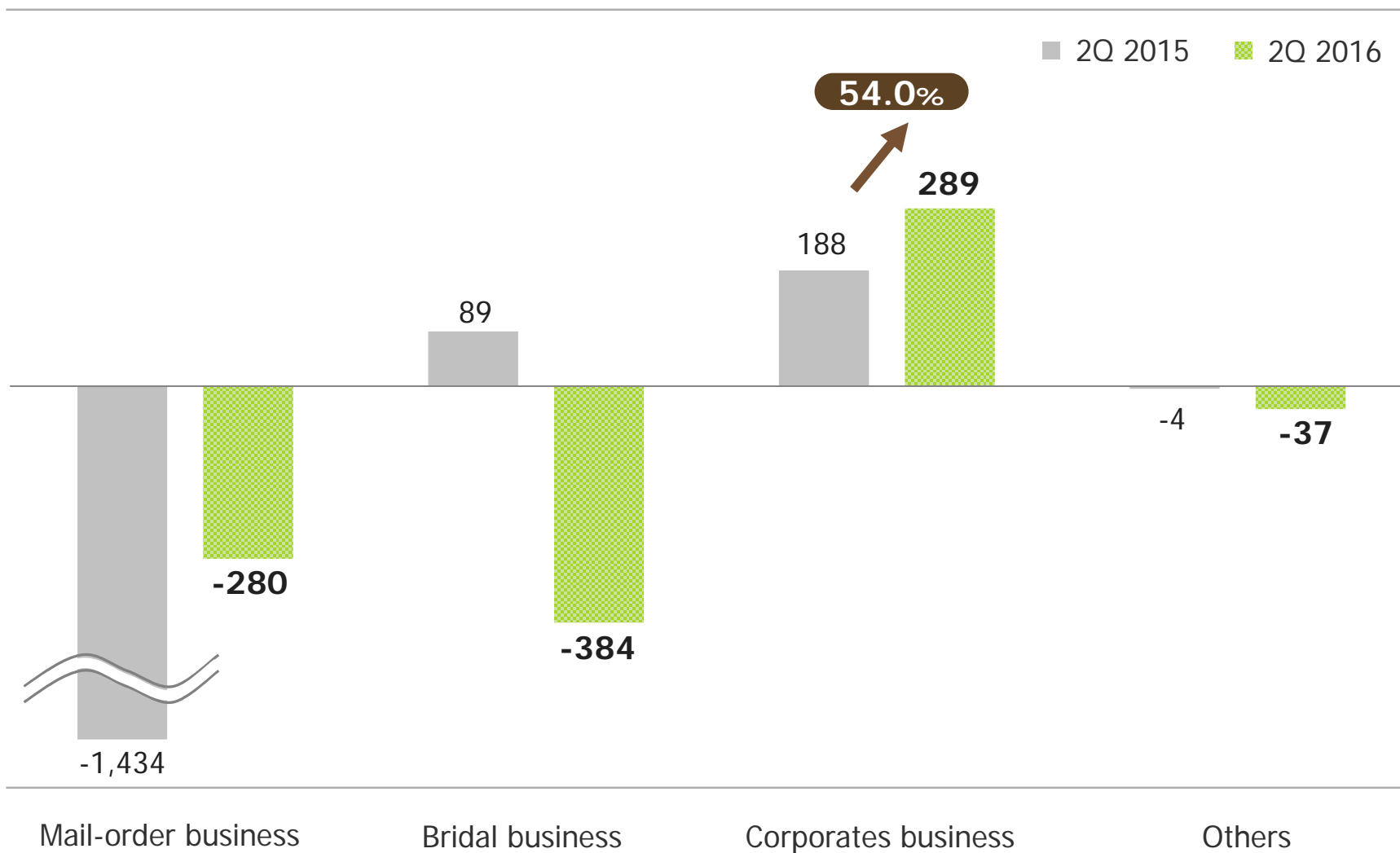
(Millions of yen)



* "Others" represents services business primarily offering insurance and credit card services, and childcare business

Consolidated Operating Income by Business Segment (YoY Comparison)

(Millions of yen)



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2. Overview by Segment


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Overview of the Mail-order Business (YoY Comparison)

	2Q 2015	2Q 2016	Difference	Major factors
Net sales (Millions of yen)	59,033	55,698	-3,335	
Operating income (Millions of yen)	-1,434	-280	1,154	
Semi-annual number of active customers (10,000 members)	258.4	240.7	-17.7	■ Decrease in the number of repeat customers
Semi-annual number of new members (10,000 members)	40.2	39.4	-0.8	
Average sales per order (Yen)	10,325	10,612	287	■ Average sales per customer increased due to higher unit price
Semi-annual order frequency per customer (Times)	2.08	2.01	-0.07	
Catalog circulation (10,000 volume)	3,778	4,410	632	

* All figures other than net sales and operating income are non-consolidated data for the mail-order business (excluding the *Hanpukai* business)

Net Sales

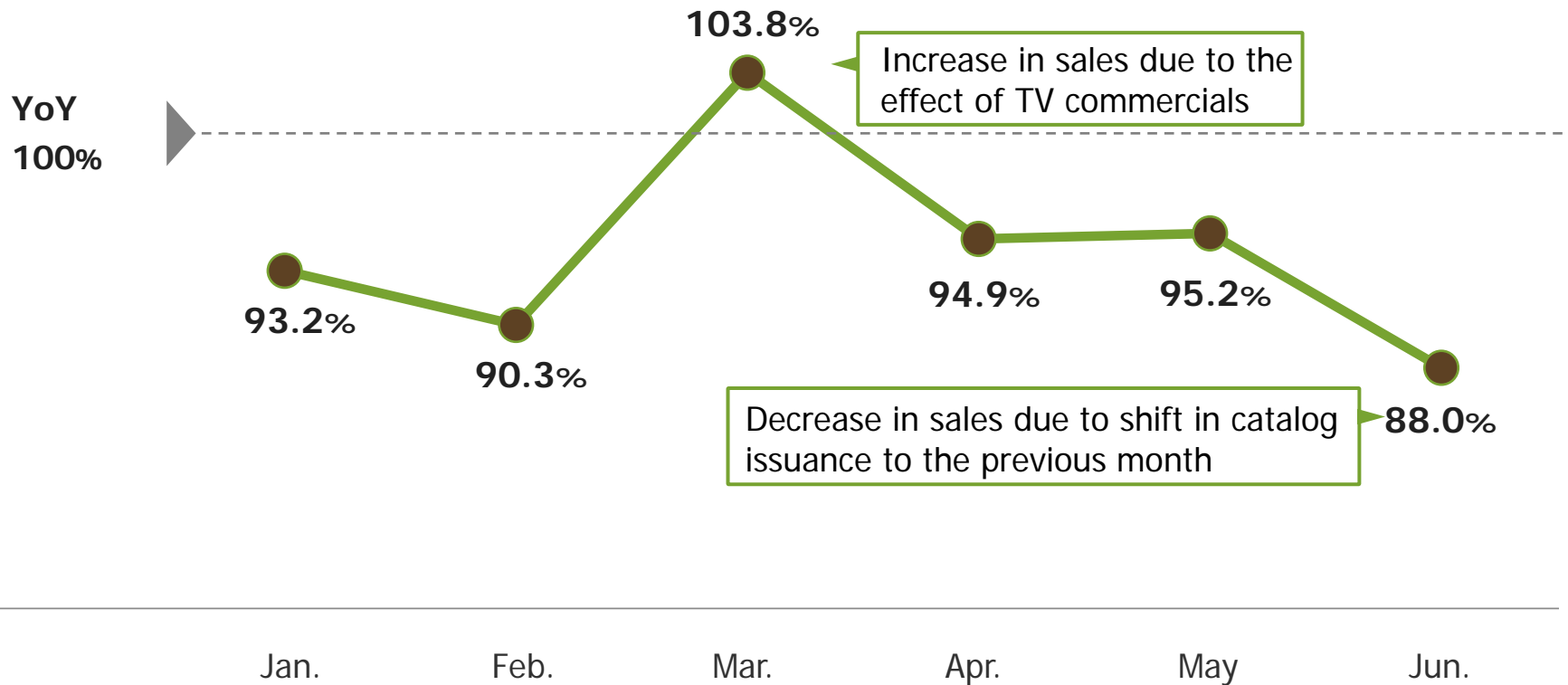
- ❖ Sluggish sales due to weaker consumer spending (apparel in particular)
- ❖ Decrease in sales due to declining repeat customer numbers
- ❖ Decrease in sales due to relative decline in product appeal, mainly in the apparel category

Operating Income

- ❖ Lower cost to sales ratio due to a decrease in bargain and clearance sales after last year's inventory clearance sales
- ❖ Reduction in distribution costs resulting from start of operations at the Minokamo Distribution Center
- ❖ Reduction in SG&A expenses

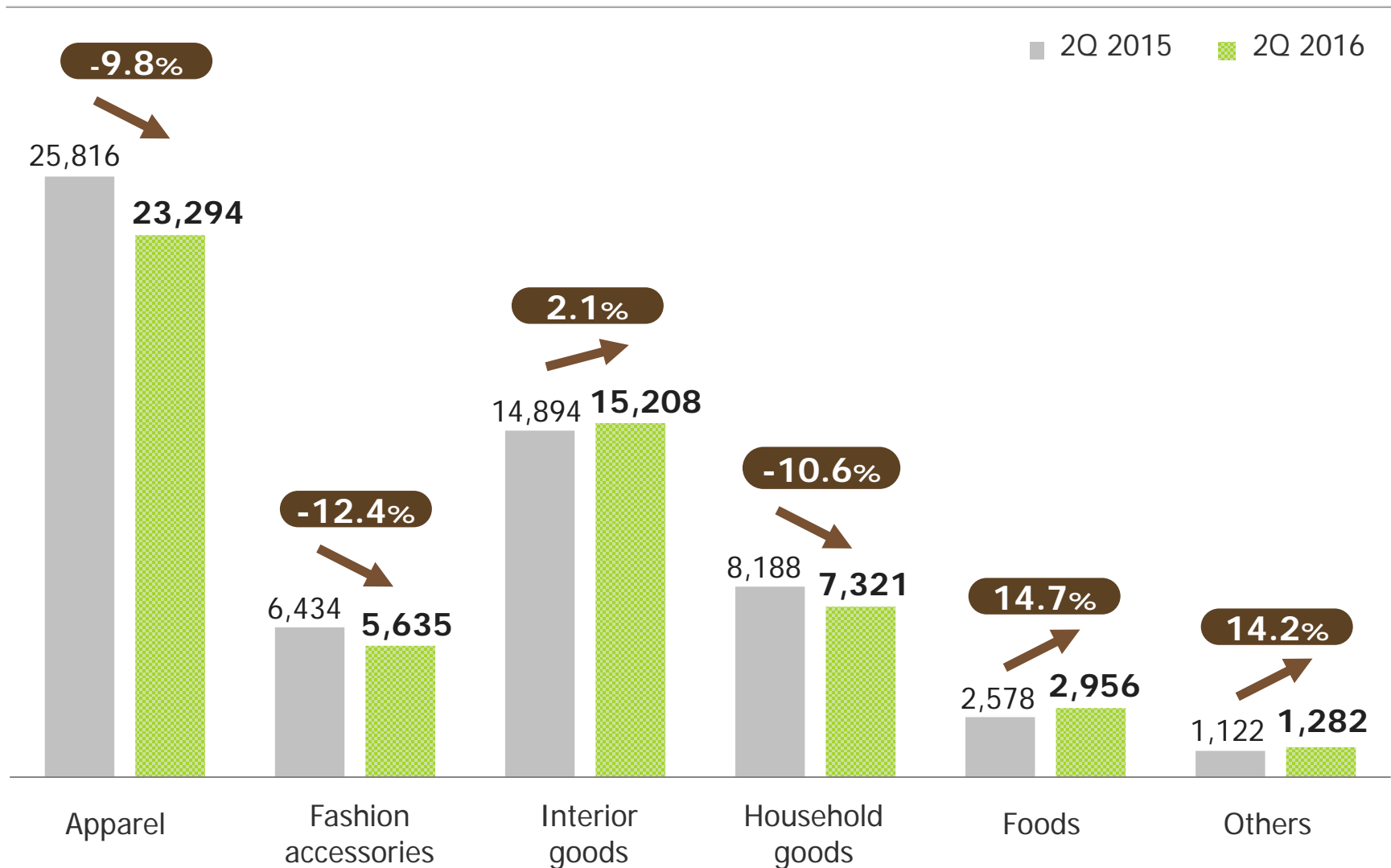
Mail-order Business –Monthly Sales

January to June: 94.4%



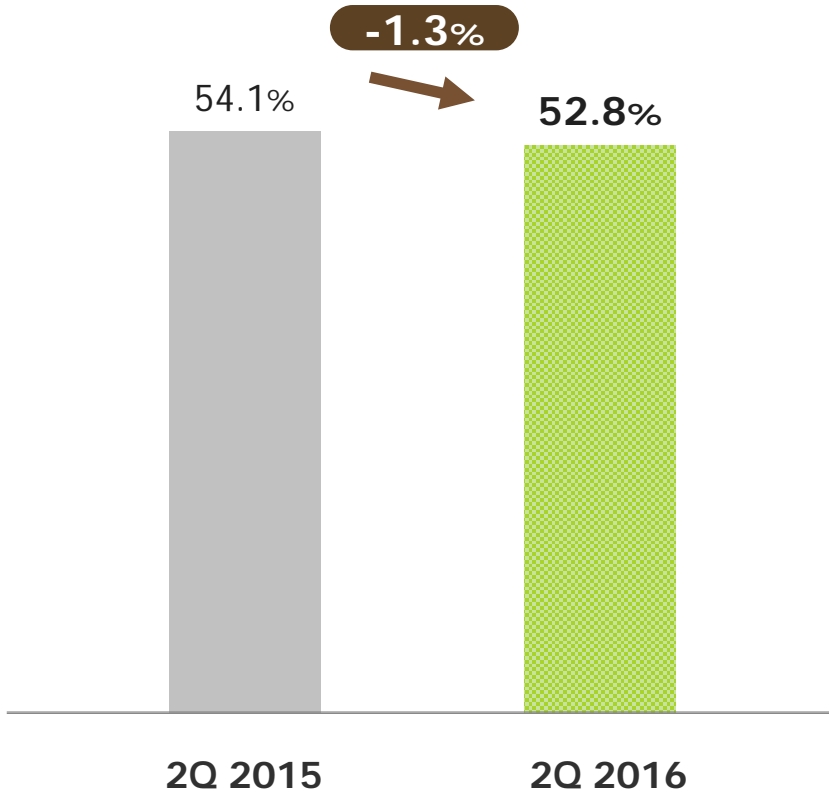
Mail-order Business –Sales by Product Category (YoY Comparison)

(Millions of yen)



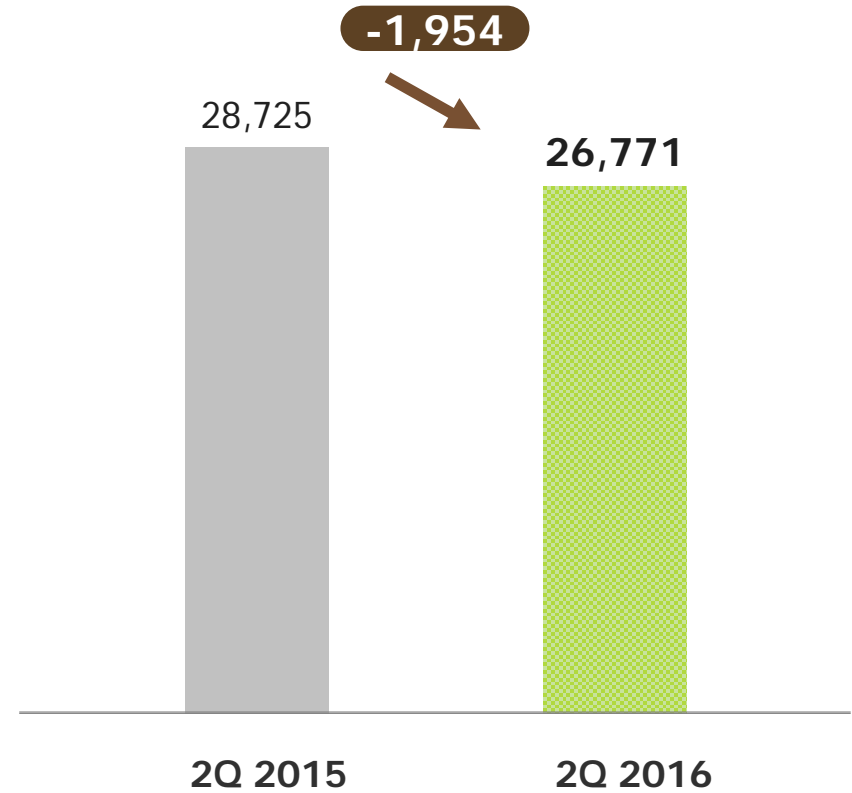
Others: Flowers and gift catalogs, etc.

Cost to Sales Ratio



SG&A Expenses

(Millions of yen)



- ◆ Decrease in share of bargain and clearance sales
- ◆ Decrease in valuation losses on goods

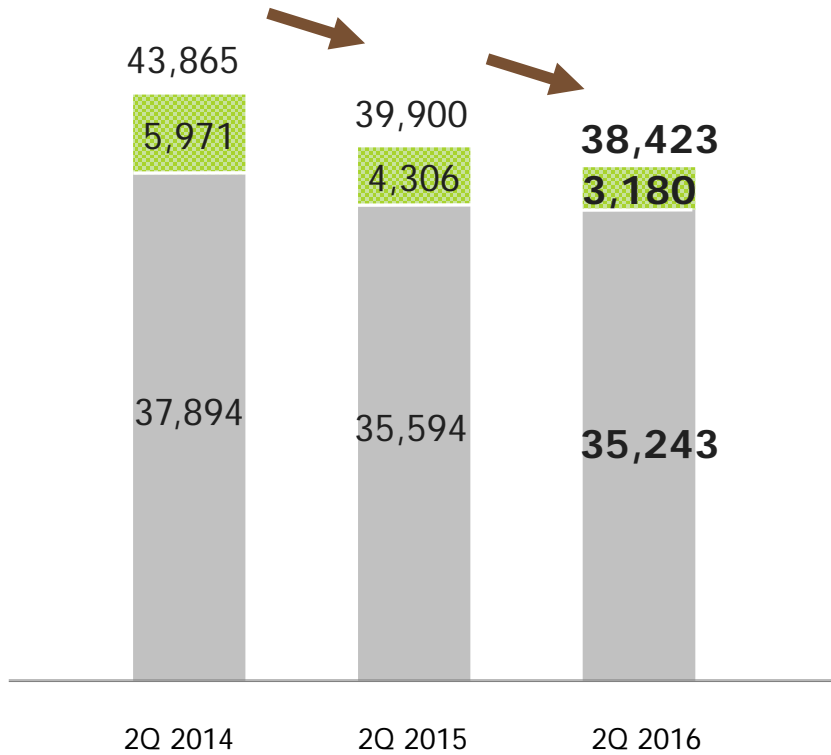
- ◆ Distribution costs:
Reduction in distribution costs resulting from start of operations at the Minokamo Distribution Center
- ◆ SG&A expenses:
Cost reduction by reexamining each expense items

Internet Sales

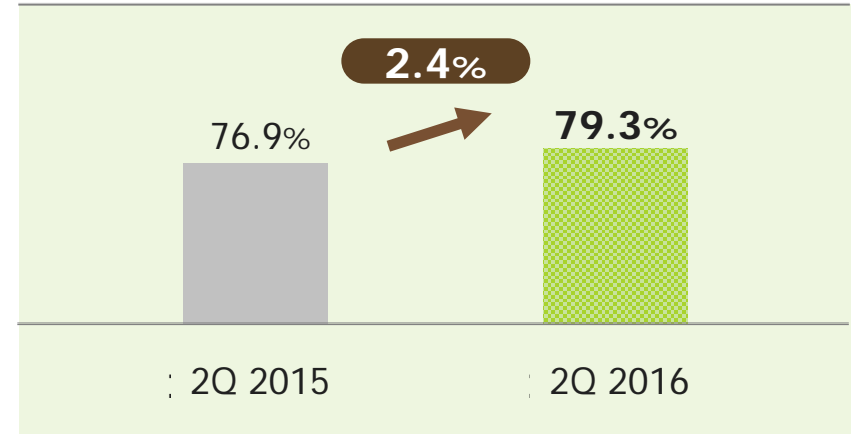
(Millions of yen)

(including mobile sales)

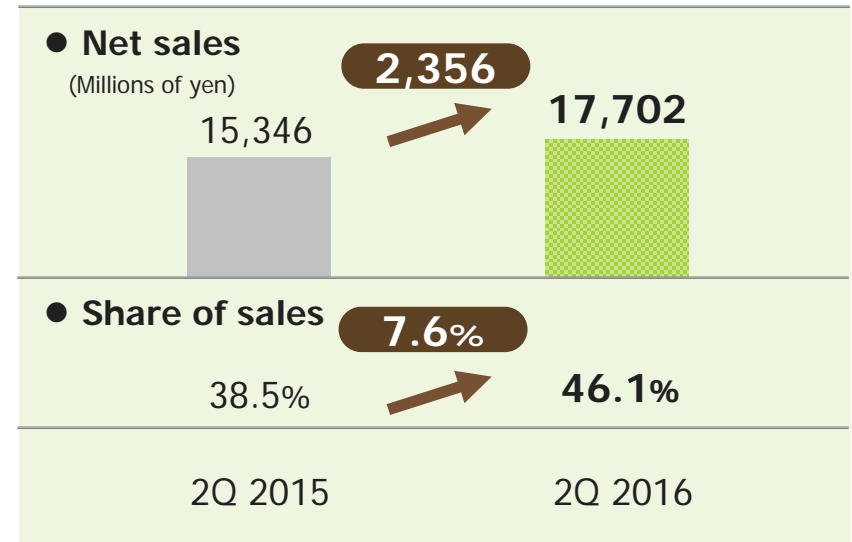
- Sales via catalog: Customer uses Internet to enter catalog product number
- Internet-only sales: All Internet sales other than sales via catalog



Ratio of Internet-based Orders



Amount and Share of Smartphone Sales



Overview of the Bridal Business (YoY Comparison)

	2Q 2015	2Q 2016	Difference	Major factors
Net sales (Millions of yen)	6,685	7,451	766	
• New facilities	-	687	687	■ Opening of new facilities in Nara (July 2015), Osaka (January 2016) and Chiba (March 2016)
• Existing facilities	6,685	6,764	79	
Operating income (Millions of yen)	89	-384	-473	■ Increase in costs for openings of new facilities
Guesthouses	21	23	2	■ Opened in Nara, Osaka and Chiba * Decreased one by the disposition of a facility in Oita
Weddings (Couples)	1,722	1,934	212	
Average sales per wedding (10,000 yen)	377	365	-12	■ Decrease in average sales per wedding as a result of heightened competition and increase in low-cost weddings (with small number of guests)

Overview of the Corporates Business (YoY Comparison)

(Millions of yen)

	2Q 2015	2Q 2016	Difference	Major factors
Net sales	2,078	2,293	215	
• Contracting services	1,434	1,573	139	<ul style="list-style-type: none"> ■ Increase in contracting sales of existing clients and new contracting services for the JFR Group
• Sampling	505	574	69	<ul style="list-style-type: none"> ■ Larger number of new clients and increase in contracting sales of existing clients
• Novelties	115	125	10	
• Others	22	18	-4	
Operating income	188	289	101	

3. 2Q Fiscal 2016 Results Relative to Initial Plan

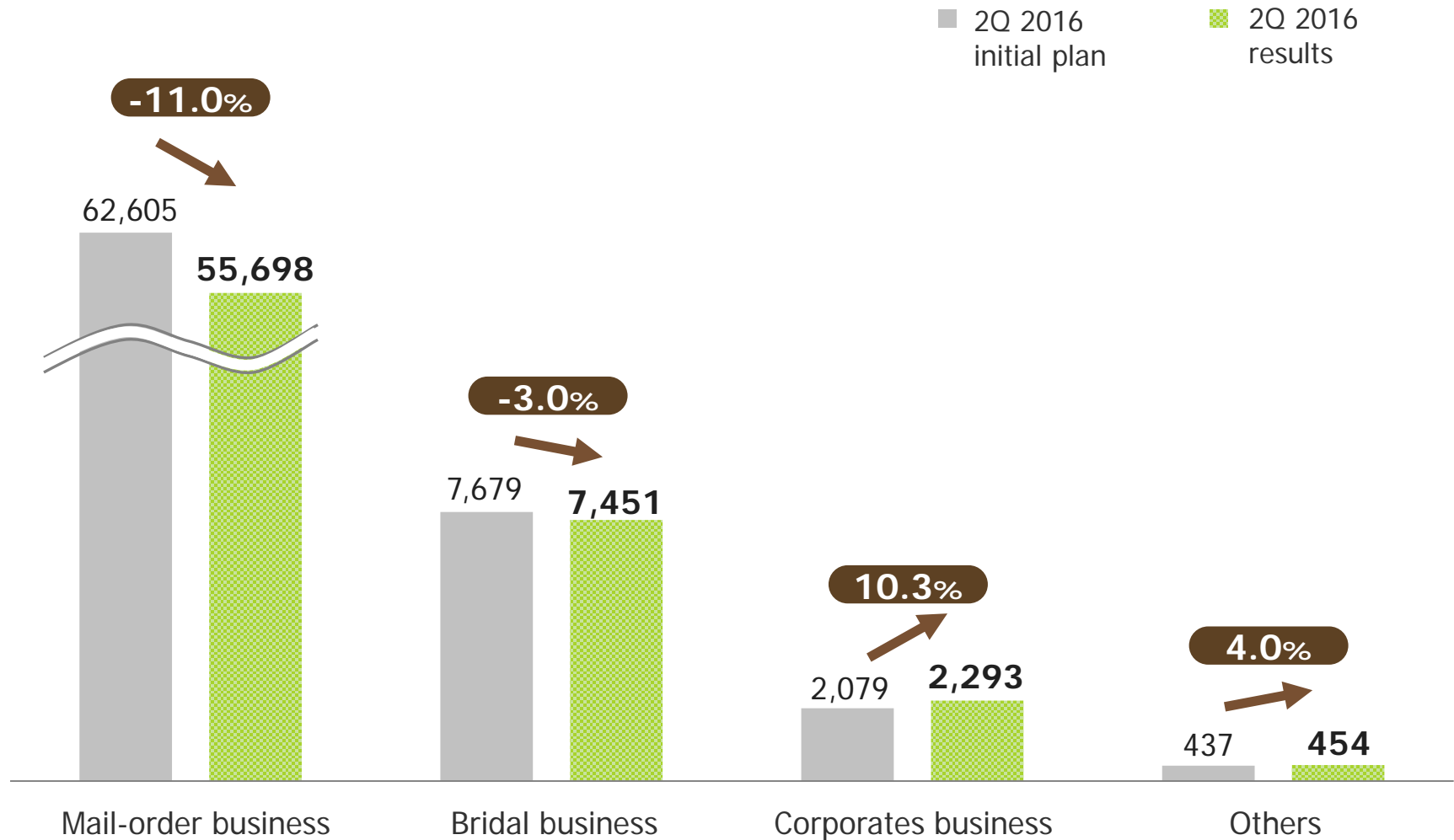

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(Millions of yen)

	2Q 2016 (Initial plan)		2Q 2016 (Results)		Relative to initial plan	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	72,800		65,898		-6,902	-9.5%
Cost of sales	37,903	52.1%	34,377	52.2%	-3,526	0.1%
Gross profit	34,896	47.9%	31,520	47.8%	-3,376	-0.1%
SG&A expenses	34,796	47.8%	31,924	48.4%	-2,872	0.6%
Operating income	100	0.1%	-403	-0.6%	-503	-0.7%
Ordinary income	650	0.9%	181	0.3%	-469	-0.6%
Profit attributable to owners of parent	450	0.6%	162	0.2%	-288	-0.4%

Consolidated Sales by Business Segment (Compared with Initial Plan)

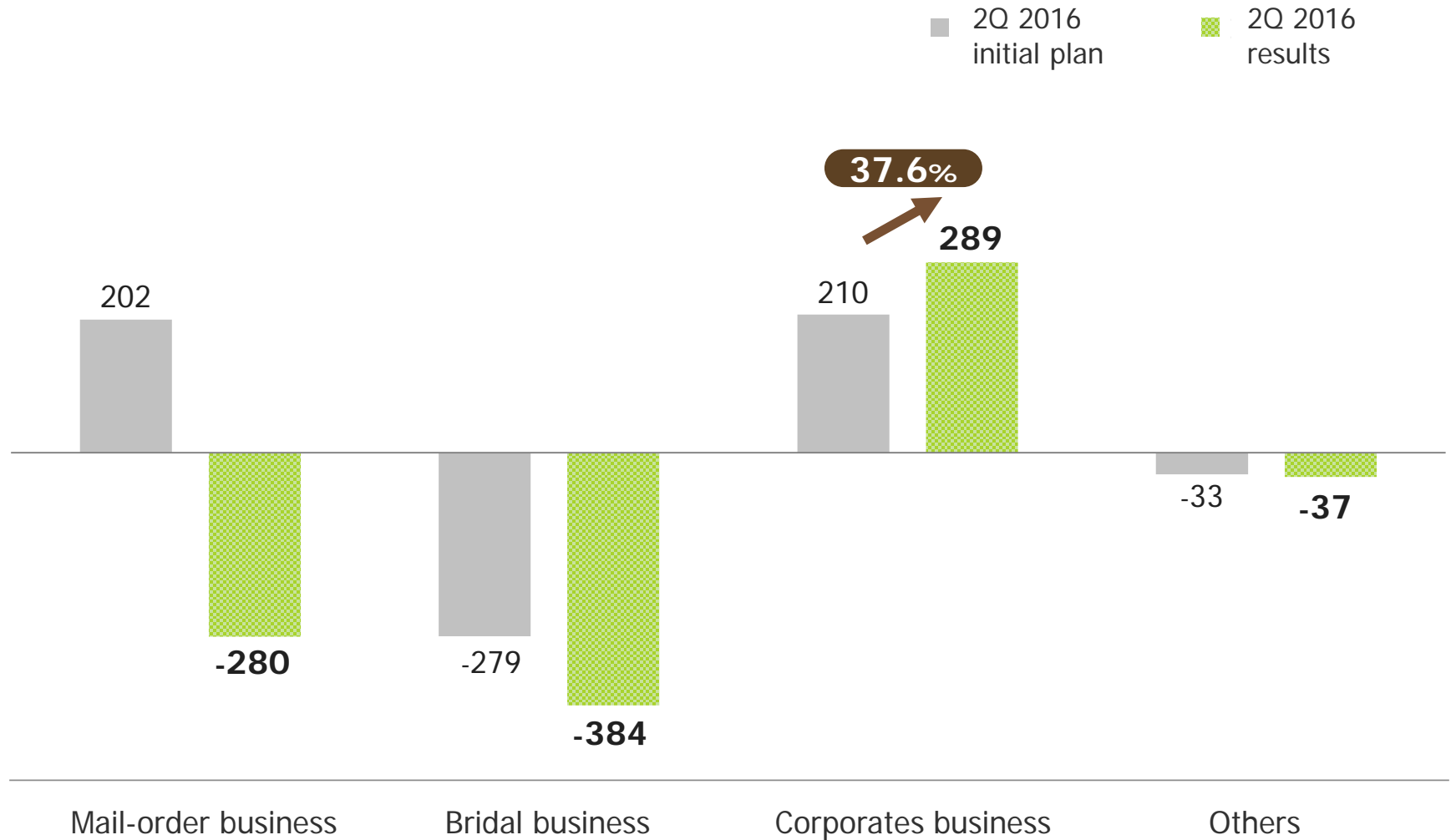
(Millions of yen)



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Consolidated Operating Income by Business Segment (Compared with Initial Plan)

(Millions of yen)



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4. Consolidated Earnings Outlook for Fiscal 2016


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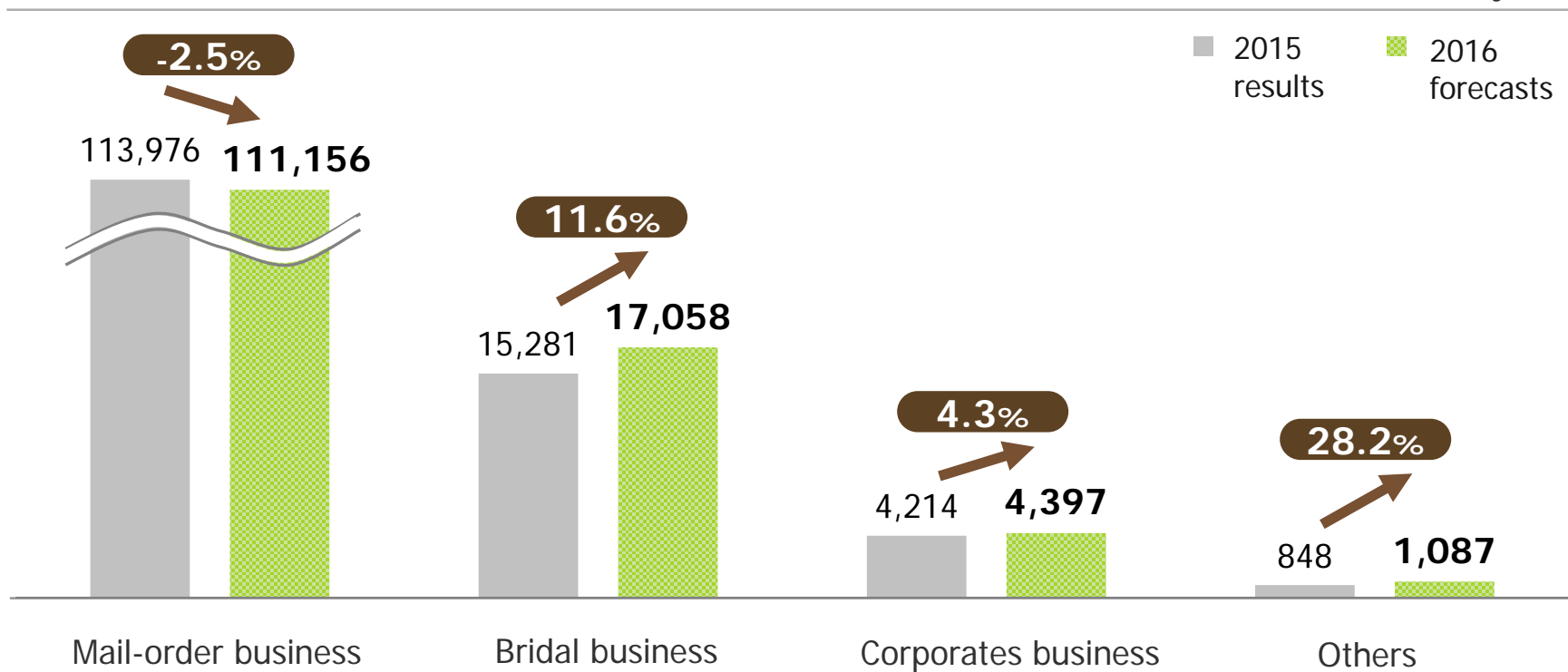
Fiscal 2016 Consolidated Earnings Outlook (YoY Comparison)

(Millions of yen)

	2015 (Results)		2016 (Forecasts)		YoY change	
		% to net sales		% to net sales	Difference	Change in % to net sales
Net sales	134,321		133,700		-621	-0.5%
Cost of sales	73,442	54.7%	70,114	52.4%	-3,328	-2.3%
Gross profit	60,879	45.3%	63,585	47.6%	2,706	2.3%
SG&A expenses	64,316	47.9%	62,285	46.6%	-2,031	-1.3%
Operating income	-3,437	-2.6%	1,300	1.0%	4,737	3.6%
Ordinary income	-2,540	-1.9%	1,750	1.3%	4,290	3.2%
Profit attributable to owners of parent	-5,307	-4.0%	750	0.6%	6,057	4.6%

Fiscal 2016 Consolidated Sales Outlook by Business Segment (YoY Comparison)

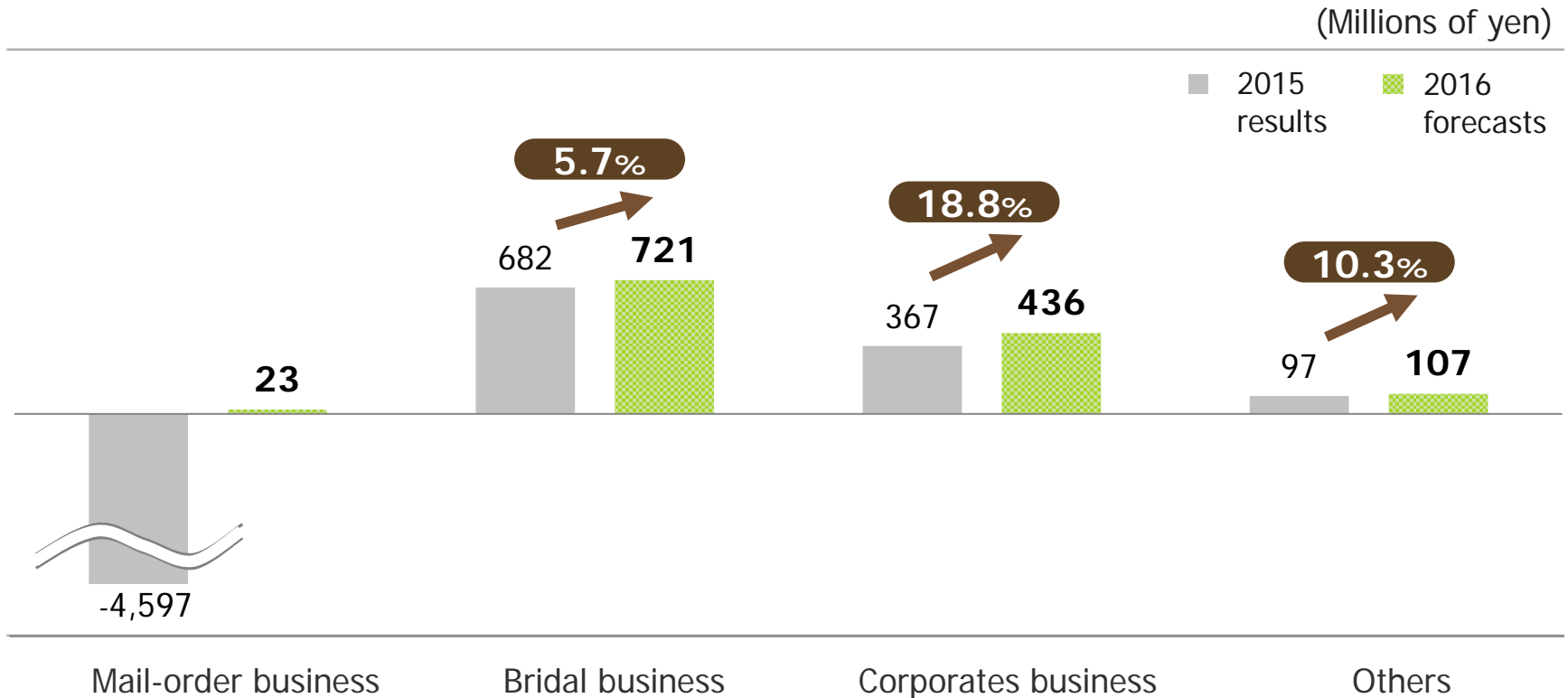
(Millions of yen)



- ◆ Additional marketing measures (coupons, points and web initiatives)
- ◆ Expand sales channels: Open stores on domestic and foreign EC malls (amazon, etc.)
- ◆ Strengthen Internet-only products; add listings advertising
- ◆ Expand the range of national brand (NB) products
- ◆ Sales growth resulting from full-scale start of Dears Brain's new facilities and consolidation of PLANETWORK

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Fiscal 2016 Consolidated Operating Income Outlook by Business Segment (YoY Comparison)



- ◆ Lower cost to sales ratio due to a decrease in bargain and clearance sales because of the 2015 cut in slow-moving inventories
- ◆ Reduction in distribution costs resulting from start of operations at the Minokamo Distribution Center
- ◆ Profit improvements due to the reduction in SG&A expenses

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5. Others

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Alliance Activities with JFR

-Opened five Kcarat stores in Daimaru-Matsuzakaya Department Stores

Plan to open nine Benebis stores in Daimaru-Matsuzakaya Department Stores starting from the end of August

Senshukai and J.FRONT RETAILING Co., Ltd. (JFR) have restructured Kcarat, Senshukai's original ladies fashion brand. Sales were launched at Daimaru-Matsuzakaya Department Stores and through Senshukai catalogs and the EC websites of the two companies starting from spring this year. Plans also call for building an "Omni Fashion Brand*" from scratch and strengthening it by leveraging the strengths of the two companies. Going forward, efforts will focus on strengthening the brand and increasing sales by going beyond company stores and websites and opening roadside stores, stores in commercial facilities and third-party EC websites.

In addition, starting from the end of August, our shoe brand Benebis will be available in nine Daimaru Department Stores.

Omni Fashion Brand: It is concept in which all operations from product planning and production to sales promotion, marketing and management of customer data is done jointly by the two companies to create a multi-tiered brand to meet the diversifying customer needs and purchasing styles.



Collaboration with Watabe Wedding Corporation and Other Initiatives

- Established a joint venture in Hong Kong to manage wedding dresses and album manufacturing businesses

Watabe Wedding entered into a capital and business alliance with Dears Brain Inc. in July 2015. In March 2016, Watabe Wedding established W&D Products, Ltd. a Wan Chai, Hong Kong-based joint venture with Dears Brain.

The core business of the company will be the management of production plants (Shanghai and Vietnam) for wedding dresses, tuxedos, photo albums and other items and marketing them to domestic and overseas OEM customers.

In addition, a project for mutual customer referrals in order to evolve into a company that can create a variety of wedding styles is being promoted. The goal is to tap group synergy in order to enhance business efficiency and create new value.



▶ Factory in Shanghai



▶ Factory in Vietnam

Childcare Business

- Opened two nurseries in April and one more is to be opened in Shinagawa next April

Wanting to contribute to the solution of the problem of children waiting for admission to nursery schools, Senshukai Child Care Co.,Ltd. operates six nursery schools, including the two licensed nursery schools opened in Chiba and Tokyo in 2016. Plans call for opening a licensed nursery school in Shinagawa-ku, Tokyo in Next April. Named Egao No Mori Nursery School Katsushima, it will be the seventh licensed nursery school for the company.

The company will focus on child care support services that bring smiles not only to nursery school children but to all including parents, our childcare workers, neighbors and everyone involved in child rearing.

Post-quake Reconstruction Support

A campaign to invite contributions for disaster relief charity fund in response to the April 2016 Kumamoto Earthquake was conducted through Senshukai's *Belle Maison Net* from April 22 through June 20.

Contributions received from customers totaled 14,303,361 yen, of which 12,303,361 yen was donated to "2016 Kumamoto Earthquake Disaster Relief Fund" set up by the Japanese Red Cross Society. And 2,000,000 yen was donated to Non-Governmental Organization JEN's "Kumamoto Earthquake Urgent Disaster Relief Fund."

In addition, employees of the Senshukai Group companies donated 5,000,000 yen to the "2016 Kumamoto Earthquake Disaster Relief Fund" set up by the Japanese Red Cross Society. A total of about 2,100 items of relief supplies such as Alpha Rice, water, Senshukai's innerwear, shorts, socks and other items were delivered to the disaster hit area.

Held Akaya Forest Castanet Workshop at Egao no Mori Nursery School Ino

In June, three to five- year old nursery school toddlers of the Senshukai Group's Egao no Mori Nursery School Ino and their parents (total 70) enjoyed a day painting castanets made from the trees of the Akaya Forest.

The event aimed at raising the awareness of the Akaya Forest (Minakami-cho, Gunma) preservation project launched by The Nature Conservation Society of Japan (supported by Egao no Mori Green Fund) and Senshukai. A workshop was held after a picture-story show and film show on protection of wildlife in Akaya Forest. It turned out to be an event where children got a feel for the importance of protecting forests.



▶ Delivery of relief supplies



▶ Workshop

Dividend Forecast

Senshukai's policy regarding dividends is to appropriately return profits to shareholders that reflects its business performance by maintaining stable dividends that take into account a payout ratio while at the same time strengthening the business foundation with retained earnings.

Regarding dividends in Fiscal 2016, Senshukai currently maintains its forecast announced on February 4, 2016, and plans to pay a total annual dividend of 8 yen per share including interim and year-end dividends of 4 yen per share each.

Schedule for Earnings Announcements

- October 28, 2016 (Friday) Announcement of financial results for the third quarter of Fiscal 2016
- February 2, 2017 (Thursday) Announcement of financial results for Fiscal 2016
- February 3, 2017 (Friday) Earnings presentation for Fiscal 2016 (Tokyo)

The forward-looking statements contained in this earnings presentation are based on information that was available at the time of the release of this presentation. Actual results could differ significantly from these projections due to a variety of factors.